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AGENDA ITEM 3

TO: MEMBERS OF THE PERFORMANCE AND COMPENSATION COMMITTEE

- I. SUBJECT:** 2005-2006 Performance Plan Measures for the Chief Executive Officer (Second Reading)
- II. PROGRAM:** Administration
- III. RECOMMENDATION:** Approve the Chief Executive Officer's 2005-2006 Performance Plan

IV. ANALYSIS:

The Board of Administration's Compensation Policies and Procedures for the Chief Executive Officer, Chief Actuary, Chief Investment Officer and Investment Management Positions include a schedule for approving performance plans for the coming fiscal year. The 2005-2006 performance plan for the Chief Executive Officer is presented with this item for second reading and approval.

The Chief Executive Officer's 2005-06 performance plan was initially presented at the September meeting for second reading. A number of questions arose in committee discussion regarding the weights of various performance measures, the definition of "special projects," and when an item should be removed from the list of special projects because it had become core workload. Staff was directed to bring back to this meeting information to clarify these questions.

Weighting of Performance Measures

The Compensation Policies and Procedures describe the three basic elements of a performance plan as: 1) Performance Measures, 2) Weights, and 3) Performance Award Schedules. Weight is defined as *"the relative value of each performance measure in an incentive plan. The total of all performance measures is 100%."* Although, there could be a correlation between the amount of time spent on a particular activity or project and its value or importance to the organization, the percentage is not intended to be a representation of time spent

on any activity or project, but rather its importance or value. The weight for each performance measure is determined by the Chief Executive Officer when the plan for the new fiscal year is prepared. The Committee may revise the weights or any item in the plan at the time of their review.

Definition of Special Projects

The term “*special project*” as used in a performance plan is not currently defined in the Compensation Policies and Procedures. However, common usage of the words appear to effectively describe their meaning in the context of the performance plans. *Special* is defined as: 1) *being other than the usual; or 2) distinguished by some unusual quality, especially being in some way superior or of particular importance.* A *project* is *a unique venture with a beginning and an end, carried out to meet a specific objective, within parameters of schedule, resources and scope/quality.*

The Committee expressed the desire to provide a specific definition or criteria for the inclusion of performance measures under the category of Special Projects on the CEO’s plan. The following is proposed for consideration:

A *Special Project* is an activity that:

- Is out of the ordinary; not routine ongoing workload
- Is of significant importance to the enterprise
- Has a clearly-defined outcome, result or goal
- Has a beginning and an end (milestones may be identified to measure progress toward the goal)
- Typically is guided by parameters of scope and schedule
- Requires special effort and resources

If this definition of *Special Project* meets with your approval, it will be added to the Compensation Policies and Procedures. An activity or project would typically be removed from the Special Projects list when it no longer met the criteria, had been completed and/or was transitioned to ongoing workload or programs.

Revised 2005-2006 Performance Plan

The CEO’s plan has been revised to add the following items as Special Projects: 1) Contracting Review Process and 2) Disaster Recovery. Diversity, Corporate Governance and Environmental Investment Initiatives have been removed from the

Special Projects list since they have become ongoing programs. The CEO has reviewed the performance measure weights. There have been no changes.

As previously reported, updates on special projects will be presented in the Chief Executive Officer's report at each Board Meeting. Any additions or changes to performance measures, including special projects, will be reflected in the Chief Executive Officer's performance plan quarterly status reports and brought back to the Committee at future meetings.

V. STRATEGIC PLAN:

Under Goal II of the Strategic Plan, CalPERS is committed to sustaining a high performance work culture. Under Goal IV, the organization is dedicated to effectively utilizing its resources, including a diverse, creative, motivated, high performance workforce. This can be accomplished at the highest executive levels through the establishment of methods that provide broad flexibility in the recruitment, retention and compensation of key personnel.

VI. RESULTS/COSTS:

The establishment of performance plans is critical to the management of a competitive compensation program for executives at the highest levels of the organization. This, in turn, is critical to the success of the organization. The cost of performance awards that might arise from the recommendations in this item will be funded from existing resources.

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Attachment